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AUG 14 2000

U.S. DEPARTMENT OF JUSTICE
ANTITRUST DIVISION

August 14, 2000

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
445 Twelfth Street, S. W. – Room TWB-204
Washington, D. C. 20554

Re: Ex parte, CC Docket No. 99-68, Inter-Carrier Compensation for ISP-Bound Traffic; CC Docket No. 96-98, Local Competition Provisions of the Telecommunications Act of 1996

Dear Ms. Salas:

On Friday, August 11, 2000, Steve Garavito, Teresa Marrero, Catherine Pitts and the undersigned, all of AT&T, met with Tamera Preiss, Rodney McDonald and Adam Candeub of the Common Carrier Bureau's Competitive Pricing Division. The purpose of the meeting was to discuss AT&T's recently filed comments in the above-captioned proceeding. The attached presentation was used to facilitate our discussion.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

A handwritten signature in cursive script, appearing to read "F. S. Simone".

ATTACHMENT

cc: A. Candeub
T. Preiss
R. McDonald

AT&T Presentation to the Federal Communications Commission

CC Docket 99-68
Reciprocal Compensation
August 11, 2000

ISP-Bound Traffic Is Interstate in Nature

- The D.C. Circuit did not question the validity of the Commission's end-to-end analysis for determining jurisdiction.
- The commenters generally agree on interstate jurisdiction.
 - But, jurisdictional analysis does not resolve whether reciprocal compensation is due.

ISP-Bound Traffic Is Covered by Sec. 251(b)(5)

- Statutory obligation applies to “transport and termination of *telecommunications*.”
- Commission’s “local” call limitation was intended to protect access charge transition.
 - ISP-bound traffic has never been subject to access charges.
- ISP-bound traffic has always been treated as local, and ESPs have always been treated as end users.

If Sec. 251(b)(5) Does Not Apply, the Commission Should Adopt a Federal Rule Requiring Compensation

- LECs use the same networks to deliver ISP-bound traffic as for other voice and data traffic.
- LECs incur costs to deliver such traffic.
- No one has demonstrated any categorical cost differences to justify discriminatory treatment of ISP-bound traffic.

The Commission Should Require Compensation for ISP-Bound Traffic

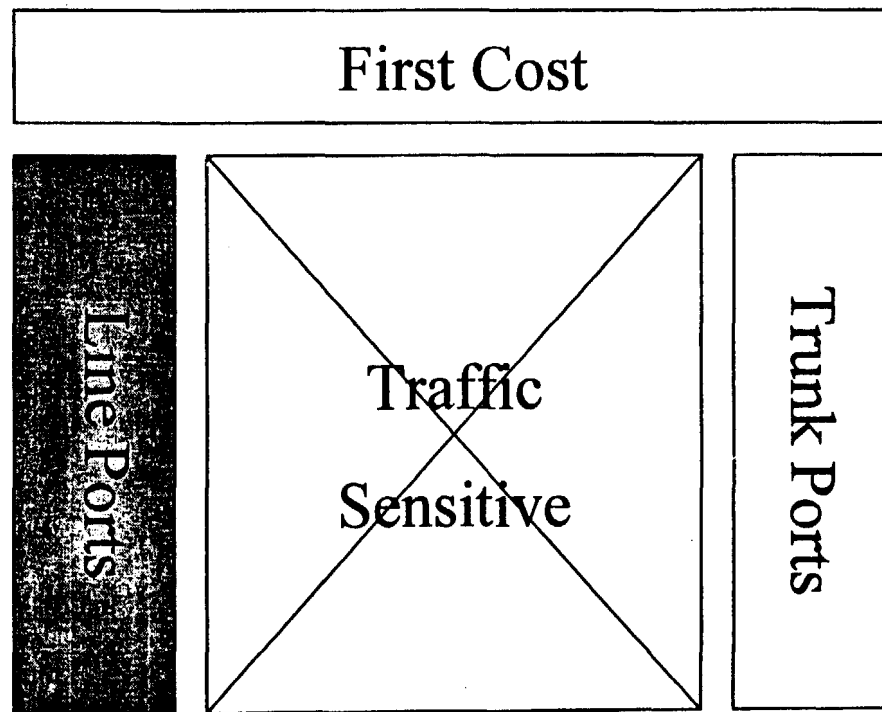
- Under Sec. 251(b)(5); or
- As a federal compensation rule outside Sec. 251(b)(5)
 - The rates terms and conditions for the transport and termination of ISP-bound traffic between any two carriers in a state shall be the rates, terms, and conditions established or approved by the state commission in such state (or the parties through negotiation) for the transport and termination of local traffic between two carriers, in accordance with Section 252 of the Act.

Reciprocal Compensation for ISP-Bound Traffic Is Sound Public Policy

- The LEC delivering the call is entitled to compensation for use of its network.
 - The customer placing the call is the cost-causer.
 - ILEC costs to originate ISP-bound calls are irrelevant.
- Reciprocal compensation obligations have forced ILECs to adopt transport and termination charges which more accurately reflect costs.
- Should a need exist to adopt a different rate structure applicable to all traffic, state commissions may do so.

End Office Switch

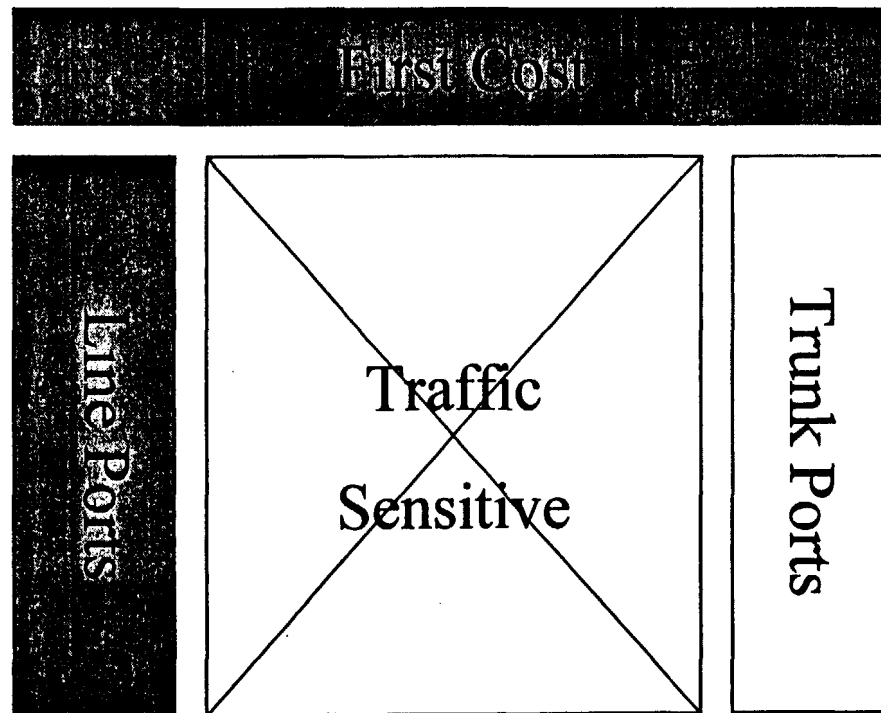
Traditional Cost Treatment



Everything but Line Ports Assigned to Traffic Sensitive

End Office Switch

Correct Cost Treatment



All Fixed Costs Assigned to Line Ports

SCIS End Office Total Material Investment

Line #	SCIS Non ISDN:	A	B	C	D	E	F	H	I	J
		Zone 1A - Manhattan			Zone 1B - Major City			Zone 2 - Rest of State		
		5 ESS	DMS	Meld	5 ESS	DMS	Meld	5 ESS	DMS	Meld
1.	Getting Started	1851093	711892	1281493	1851093	711892	1281493	4216116	918978	2567547
2.	SM 2000 EPHC	2716685		1358343	1922328		961163	1048498		523249
3.	Line Term. A+C+D	3054538	298333	1676435	3434347	289207	1851777	2339308	296963	1318135
4.	LINE CCS	4825355	995829	2910592	4548598	1030408	2789503	2238080	1155771	1696928
5.	Term Call	0	0	0	0	0	0	0	0	0
6.	Trunk CCS	3094555	1593051	2343803	1472115	755463	1113789	623699	319741	471720
7.	SS7 Link	20684	30159	25422	20684	34163	27424	20,684	34163	27424
8.	UMBILICAL TRUNK CCS			0			0		119291	59646
9.	TOTAL Non-ISDN	\$ 15,562,910	\$ 3,629,264	\$ 9,596,087	\$ 13,249,163	\$ 2,801,133	\$ 8,025,148	\$ 10,484,385	\$ 2,844,907	\$ 6,664,646
	(Sum L1 to L8)									
	SCIS ISDN Investments:									
10.	SM 2000 Real Time EPHC	201618		100809	103053		51527	55526		27763
11.	BRI - U Card	145794	39385	92590	89043	21618	55331	63877	15732	39805
12.	ISDN LINE CCS	151002	31887	91445	102349	23694	63022	99075	23199	61137
13.	PRI D CHANNEL	48637	16696	32667	34320	11131	22728	20023	5565	12794
14.	PRI B CHANNEL	159974	154685	157330	127314	103123	115219	63104	51562	57333
15.	D CH. ACC. PPS	141855	6456	74156	70928	3603	37266	46103	2342	24223
16.	PPB CH. ACCESS PPS	374	1033	704	374	1153	764	374	1153	764
17.	INTER-SWITCH PPS	17572	3043	10308	17572	3353	10463	17572	3353	10463
18.	XAT PPS	512		256	512		256	512		256
19.	ADD'L BRI PPB CH.	94	1586	840	94	2818	1456	94	3558	1826
20.	ADD'L D CH. TERM.		25144	12572		22191	11096		18183	9092
21.	ADD'L XAT Channel	6002		3001	6036		3018	6074		3037
22.	TOTAL ISDN	\$ 873,434	\$ 279,915	\$ 576,675	\$ 551,595	\$ 192,684	\$ 372,140	\$ 372,334	\$ 124,647	\$ 248,491
	(Sum L10 to L21)									
23.	Total Local Switch - SCIS (L9 + L22)	\$ 16,436,344	\$ 3,909,179	\$ 10,172,761	\$ 13,800,758	\$ 2,993,817	\$ 8,397,288	\$ 10,856,719	\$ 2,969,554	\$ 6,913,136
24.	Total NTS (L3 + L6 + L11 + L13 + L14)	\$ 6,503,498	\$ 2,102,150	\$ 4,302,624	\$ 5,157,139	\$ 1,180,542	\$ 3,158,841	\$ 3,110,011	\$ 689,563	\$ 1,899,787
25.	Total TS (Usage) (L23 - L24)	\$ 9,932,846	\$ 1,807,029	\$ 5,869,938	\$ 8,843,619	\$ 1,833,275	\$ 5,238,447	\$ 7,746,708	\$ 2,279,991	\$ 5,013,350
Note:		Discounted 5ESS and DMS End Office Investments Melded 50%/50%.								

WORKPAPER
 PART B-2
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 2nd Revision 05-19-00

BA-NY Filed non-ISDN Data with Fixed Costs Removed from Traffic Sensitive Costs

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TS	Ln 4+5+6+7+8	7,940,594	2,619,039	5,279,817	6,041,397	1,820,034	3,930,716	2,882,463	1,509,675	2,196,069
% TS of total Switch		51%	72%	55%	46%	65%	49%	27%	53%	33%
Call Set-Up	Ln 5+7	20,684	30,159	25,422	20,684	34,163	27,424	20,684	34,163	27,424
% Call Setup of TS		0.26%	1.15%	0.48%	0.34%	1.88%	0.70%	0.72%	2.26%	1.25%

SWITCH COSTS AND RECIPROCAL COMPENSATION

SWITCH COST STRUCTURE

RECIPROCAL COMPENSATION SHOULD BE BASED ON FORWARD-LOOKING COST INCURRED TO CARRY TERMINATING TRAFFIC

ONLY TRAFFIC SENSITIVE EQUIPMENT COSTS SHOULD BE INCLUDED

THERE ARE SIGNIFICANT FIXED COSTS IN A SWITCH THAT SHOULD NOT BE INCLUDED IN RECIPROCAL COMPENSATION OR IN UNE RATES

THERE ARE TWO TYPES OF FIXED COSTS IN A SWITCH, NEITHER OF WHICH IS AFFECTED BY THE AMOUNT OF TRAFFIC CARRIED BY THE SWITCH:

1. SUBSCRIBER PORT RELATED
2. START-UP COSTS – THE COST FOR EQUIPMENT TO INITIALLY GET A SWITCH UP AND RUNNING BEFORE A LINE IS ADDED OR A MINUTE IS USED (ALSO KNOWN AS GETTING STARTED COST)

SUBSCRIBER PORT RELATED COSTS ARE SENSITIVE TO THE NUMBER OF SUBSCRIBERS, NOT THE AMOUNT OF TRAFFIC OR THE NUMBER OF MESSAGES BECAUSE EACH PORT IS DEDICATED TO A PARTICULAR SUBSCRIBER

START UP COSTS ARE INCURRED ONLY WHEN AN ADDITIONAL SWITCH IS PURCHASED. ADDITIONAL SWITCH PURCHASES ARE CAUSED BY PORT EXHAUST – NOT MINUTES OR CALL MESSAGES.

THE PROCESSORS (BOTH CENTRAL AND DISTRIBUTED) ARE NOT LIMITING – THE PROCESSORS ARE PART OF THE FIXED START UP COST.

START-UP COST, INCLUDING PROCESSORS, SHOULD BE RECOVERED VIA THE COST-CAUSER – PORTS.

THERE IS NO FORWARD-LOOKING ECONOMIC COST PER CALL MESSAGE TO USE THE PROCESSOR

BIFURCATED CALL MESSAGE AND MOU?

SOME COMMENTERS INCORRECTLY CLAIM THAT UNIQUELY LONGER HOLDING TIMES OF INTERNET CALLS REQUIRE DIFFERENT RECIPROCAL COMPENSATION TREATMENT

CALLS OF VARYING LENGTHS HAVE ALWAYS BEEN IN THE NETWORK:
OTHER DIRECT DIAL DATA CALLS (WORK AT HOME, BANKING)
BUSINESS CALLS VS. RESIDENCE CALLS
TRAVEL AGENT/RESERVATION BUREAU INBOUND CALL CENTERS
CREDIT CARD VALIDATION CALLS

SWITCHES ARE ENGINEERED TO AVERAGES AND THE COSTS ARE INCURRED TO SERVE ALL DEMAND ON AVERAGE.

WHY BIFURCATED RATES (OR A DIFFERENT ISP RC CHARGE) NOW?

TRADITIONAL ILEC COST STUDIES INCORRECTLY ASSUME THE SWITCH PROCESSORS ARE LIMITING AND ARE THE PRIMARY COST OF CALL SETUP

WHEN THE FIXED COSTS, INCLUDING THE CENTRAL AND DISTRIBUTED PROCESSOR COSTS, ARE REMOVED, THE CALL MESSAGE COSTS ARE INSIGNIFICANT AND DO NOT NEED A SEPARATE RATE ELEMENT

RECIPROCAL COMPENSATION COSTS AND STRUCTURES SHOULD BE TIED TO UNE SWITCH AND TRANSPORT ELEMENTS

CHANGING ONE COST METHODOLOGY APPROACH AND NOT THE OTHER COULD RESULT IN OPPORTUNISTICALLY HIGH UNES AND LOW RECIPROCAL COMPENSATION RATES